Statement of Bruce R. Bartlett
Senate Budget Committee
May 17, 2023

> Bruce Bartlett was formerly a prominent Republican economist deeply involved in tax policy; he is now an independent. For some years he has thought that Republicans are guilty of one-size-fits-all economics; reflexively proposing tax cuts as the all-purpose cure for whatever economic problem arises. While Bartlett believes that the 1981 tax cut, which he helped draft as a member of Rep. Jack Kemp's staff in 1977, was appropriate for the time, circumstances have changed and different policies are needed. Bartlett believes that the tax cuts of the George W. Bush and Donald Trump administrations were ineffective, economically, and added considerably to the deficit and the debt. Since they had little positive economic effect, then logically there would be little negative effect from repealing them.

Thank you for the opportunity to discuss the relationship between tax cuts, tax reform, and the economy this afternoon. I have been working on this issue since 1977, when I helped draft the famous Kemp-Roth tax bill while on the staff of Rep. Jack Kemp (R-NY). This legislation formed the basis for the 1981 tax cut and I explained its economic rationale in my 1981 book, *Reaganomics: Supply-Side Economics in Action*.

I served in the White House Office of Policy Development from 1987 to 1988 and was deputy assistant secretary for economic policy at the Treasury Department from 1988 to 1993. In my 2009 book, *The New American Economy: The Failure of Reaganomics and a New Way Forward*, I argued that the power of tax cuts to stimulate the economy had diminished greatly and that government spending to stimulate aggregate demand would work better under then-existing economic conditions. Since that time, my thinking has continued to evolve and I am now convinced that spending programs would do more for the economy than more tax cuts.[1]

My last book on this topic was *The Benefit and the Burden: Tax Reform—Why We Need It and What It Will Take*. I argued that strengthening the government's revenue-raising capacity should be a prime focus of tax reform.

[1] Bruce Bartlett, "It Took Democrats Half a Century to Rediscover Trickle-Up Economics," *The New Republic* (May 7, 2021). I know it's dogma among Republicans that government social spending is a drag on growth, but there is no evidence of this in the historical record. See Peter Lindert, *Growing Public: Social Spending and Economic Growth Since the Eighteenth Century*, 2. Vols. (NY: Cambridge University Press, 2004). I discuss the positive nature of the American welfare state in "A Conservative Case for the Welfare State," *Dissent* (April 24, 2015).

Republican View of Tax Policy

In the days when I was involved with Republican tax policymaking, the guiding principle was something known as "tax neutrality," which said that the tax code should neither punish nor subsidize economic activity to the greatest extent possible. This is still a worthy goal. But during the George W. Bush years, the GOP threw this idea out the window, enacting many tax gimmicks that had no positive economic effect and were basically just payoffs to Republican contributors and constituencies. I was highly critical of Bush's tax policy even when I was still a Republican, devoting a whole chapter of my 2006 book, *Impostor: How George W. Bush Bankrupted America and Betrayed the Reagan Legacy*, to its flaws.

I was not the only one of the original supply-siders who opposed the Bush tax cuts. Paul Craig Roberts, who was assistant secretary of the Treasury for economic policy early in the Reagan administration, was also highly critical. In 2006, he had this to say about them:

> The Bush administration did not use changes in the marginal rate of taxation to correct a mistaken policy mix or an oversight in economic policy. Income distribution is a legitimate issue. This is especially the case when offshore production and jobs outsourcing are destroying the American middle class.
>
> I am not a partisan of dubya's tax cuts. Just as dubya hides behind "freedom and democracy" to wage wars of naked aggression, he hides behind supply-side economics in order to reward his cronies.[2]

Republicans make grandiose claims for the growth effects of their tax cuts — Treasury Secretary Steve Mnuchin said there would be so much additional growth from the 2017 tax cut that federal revenues would not fall because the economic pie would be so much bigger. The Trump administration tax plan "will pay for itself," he said.[3] The Republican economist Arthur Laffer said on Fox Business, "If you cut that [corporate] tax rate to 15 percent, it will pay for itself many times over. This will bring in probably $1.5 trillion net by itself."[4]

---

[2] Paul Craig Roberts, "What Is Supply-Side Economics?" *Counterpunch* (February 25, 2006).

[3] Peter Baker, "Arthur Laffer's Theory on Tax Cuts Comes to Life Once More," *New York Times* (April 25, 2017).

[4] Fox Business channel Twitter feed (September 21, 2017). The corporate rate was cut to 21 percent from 38 percent. My friend Arthur still insists that every tax cut pays for itself, which has had a terribly pernicious effect on the debate about taxes in this country. See Paul Schwartzman, "Art Laffer Still Thinks He Was Right About Tax Cuts," *Washington Post* (November 2, 2022); Elizabeth Popp Berman and Laura M. Milanese-Reyes, "The Politicization of Knowledge Claims: The 'Laffer Curve' in the U.S. Congress," *Qualitative Sociology* (March 2013): 53-79.

We have heard such claims before and they proved to be groundless.[5] Indeed, they are simply lies. The purpose of cutting taxes for Republicans is only secondarily to raise growth; its primary purpose is to downsize government, which is an end in itself, whether or not it raises growth. They believe there is only so much freedom to go around and when government gets bigger it necessarily comes at the expense of individual liberty.[6] Therefore, cutting government is per se a good thing.[7]

Republicans believe in a theory called "starve-the-beast," which posits that the *only* way to cut spending is to slash taxes first.[8] As Ronald Reagan put it in one of his first speeches as president:

> Over the past decades we've talked of curtailing government spending so that we can then lower the tax burden. Sometimes we've even taken a run at doing that. But there were always those who told us that taxes couldn't be cut until spending was reduced. Well, you know, we can lecture our children about extravagance until we run out of voice and breath. Or we can cure their extravagance by simply reducing their allowance.[9]

It is precisely because tax cuts reduce revenue and raise the deficit that this works. However, deficits, in the Republican mind, arise only because of spending, never because of tax cuts. Thus their response to higher deficits is always to cut spending. The recent experience of Kansas is a textbook case of this — tax cuts devastated revenues and did not pay for themselves with higher growth, despite promises from Mr. Laffer that they would.[10] But the first response of the

---

[5] I used to make such claims myself when working for Jack Kemp. We often cited the economist Norman Ture, who projected that a big tax cut sponsored by Kemp would pay for itself in higher growth the very first year it was in effect. See *Reducing Unemployment: The Humphrey-Hawkins and Kemp-McClure Bills* (Washington: American Enterprise Institute, 1976).

[6] Milton Friedman first popularized this idea in "The Line We Dare Not Cross," *Encounter* (November 1976): 8-14.

[7] I've never heard a Republican defend the existence of taxation per se. But I have heard many argue that all taxation is theft, which implies that the only defensible policy is zero taxation. See Bruce Bartlett, "Is Voluntary Taxation a Viable Option?" *Tax Notes* (June 11, 2012): 1403-6.

[8] Bruce Bartlett, "'Starve the Beast': Origins and Development of a Budgetary Metaphor," *Independent Review* (Summer 2007): 5-26. The late Bill Niskanen, chairman of the Cato Institute, eventually concluded that "starve-the-beast" ironically raised deficits by eliminating the prospect of painful higher taxes when they arose. See William A. Niskanen, "Limiting Government: The Failure of 'Starve the Beast,'" *Cato Journal* (Fall 2006): 553-58;

[9] Ronald Reagan, "Address to the Nation on the Economy," The White House (February 5, 1981).

[10] There is no evidence whatsoever that the Kansas tax cuts raised growth one iota and some evidence that they actually reduced growth because of budget cuts and increased uncertainty. See Daniel R. Alvord, "What Matters to Kansas: Small Business and the Defeat of the Kansas Tax Experiment," *Politics & Society* (March 2020): 27-66; Jason DeBacker et al., "The Impact of State Taxes on Pass-Through Businesses: Evidence from the 2012 Kansas Income Tax Reform,"

Republican administration and legislature was to cut spending. Only after years of deficits were taxes finally raised to restore fiscal integrity, which, ironically, stimulated growth.[11]

This Republican obsession with tax cuts wasn't always the case. Until the George W. Bush administration, Republicans were often willing to raise taxes and squelch tax cuts in the name of fiscal responsibility. Dwight Eisenhower opposed tax cuts even when his party controlled Congress, many Republican members of Congress voted against the Kennedy-Johnson tax cut,[12] Richard Nixon extended the 10 percent Vietnam War surtax and signed into law the revenue-raising Tax Reform Act of 1969, Gerald Ford opposed a permanent tax cut in 1975, Ronald Reagan supported 11 major tax increases after the 1981 tax cut that collectively took back 50 percent of the tax cut, and George H.W. Bush raised taxes in 1990.[13]

Table 1
Major Reagan Tax Increases: Cumulative Impact as of 1988

Legislation	**Billions of Dollars**
Tax Equity and Fiscal Responsibility Act	+57.3
Highway Revenue Act of 1982	+4.9
Social Security Amendments of 1983	+24.6
Railroad Retirement Revenue Act of 1983	+1.2
Deficit Reduction Act of 1984	+25.4
Consolidated Omnibus Budget Reconciliation Act of 1985	+2.9
Omnibus Budget Reconciliation Act of 1986	+2.4
Superfund Amendments and Reauthorization Act of 1986	+0.6
Continuing Resolution for 1987	+2.8
Omnibus Budget Reconciliation Act of 1987	+8.6
Continuing Resolution for 1988	+2.0
Total tax increase	**+132.7**

Source: Budget of the United States Government, Fiscal Year 1990.

Journal of Public Economics (June 2019): 53-75; Tracy M. Turner and Brandon Blagg, "The Short-Term Effects of the Kansas Income Tax Cuts on Employment Growth," *Public Finance Review* (November 2018): 1024-43; Dan S. Rickman and Hongbo Wang, "Two Tales of Two U.S. States: Regional Fiscal Austerity and Economic Performance," *Regional Science and Urban Economics* (January 2018): 46-55.

[11] Jeremy W. Peters, "How Low Can Taxes Go? Outside Washington, Republicans Find Limits," *New York Times* (July 2, 2017); Scott Cohn, "The Comeback State of 2019: Kansas Economy Rebounds from Tax-Cutting Disaster," CNBC (July 10, 2019).

[12] Bruce Bartlett, "50 Years After the House Vote for the Kennedy Tax Cut," *New York Times* (September 24, 2013).

[13] The extent to which Grover Norquist, Newt Gingrich and other Republicans deliberately destroyed President George H.W. Bush, politically, to make tax increases forever anathema to Republicans is a little-known story. But it has been documented. See Bob Woodward, "In His Debut in Washington's Power Struggles, Gingrich Threw a Bomb," *Washington Post* (December 25, 2011).

As of 1988, the Economic Recovery Tax Act of 1981 reduced revenues by a total of $264.4 billion, according to Reagan's last budget. Various tax increases took back $132.7 billion of that. I've always wondered how many Republicans who assert that higher growth from the tax cut paid for much of the cost of the tax cut are implicitly counting revenues from legislated tax increases in their calculations? It is my observation that few Republicans today know that Reagan ever raised taxes and most would be shocked to find out that he raised them a lot. The 1982 TEFRA bill was the largest peacetime tax increase in American history, raising revenues by about 1 percent of the gross domestic product, according to a Treasury Department study.[14]

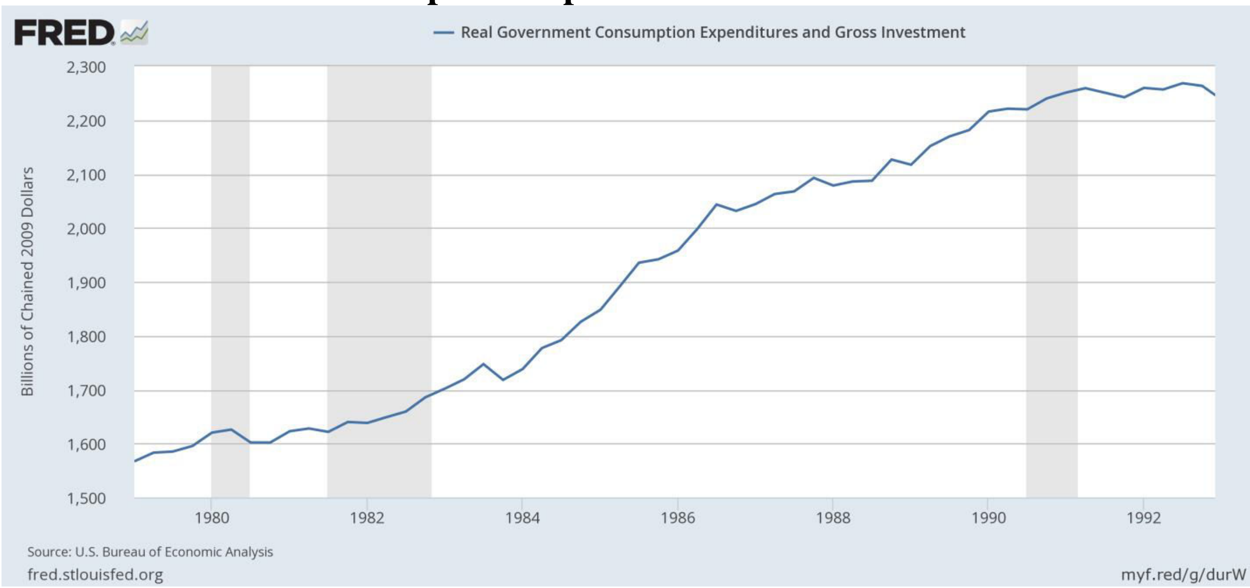
The Keynesian Foundations of Reaganomics

I would not deny that the 1981 tax cut stimulated economic growth to some extent, but Republicans have a tendency to attribute *all* of the pickup in growth in the 1980s to the tax cut, when in fact much of it was the normal bounce-back from the economic recession that began in July 1981 and ended in November 1982, according to the nonpartisan National Bureau of Economic Research.

Much of the rise in growth is attributable to two very important factors that seldom enter into the Republican story line. First is that Reagan's defense buildup caused government spending for goods and services to go up sharply, thereby increasing aggregate demand. Standard Keynesian theory, which all Republicans reject, predicted that this would provide a strong fiscal kick to the economy and it did.[15]

[14] Jerry Tempalski, "Revenue Effects of Major Tax Bills: Updated Tables for All 2012 Bills," U.S. Treasury Department, Office of Tax Analysis (February 2013).
[15] President Reagan frequently denounced Keynesian economics. See "Remarks to Students and Faculty at Purdue University in West Lafayette, Indiana," The White House (April 9, 1987).

Figure 1
Real Government Consumption Expenditures and Gross Investment



Keynesian economists at the time pointed out that, despite his ostensible rejection of Keynesian economics, Reagan was implementing standard Keynesian medicine. As University of Massachusetts economist Samuel Bowles put it in 1984:

> What, then, is fueling the recovery? Where is the expanding demand coming from?...
>
> The big boost is from expanded government spending and from the fact that while spending more, the federal government is taxing less, thereby adding to the total demand for goods and services without reducing the levels of private demand.
>
> The big ticket item in government expansion is, of course, military spending. Thus today's recovery is a classic example of what has come to be called "military Keynesianism."[16]

The Reagan administration was not altogether ignorant of the Keynesian effects of its policies. At one point, Defense Secretary Caspar Weinberger tried to raise support for the defense buildup by claiming that every $1 billion increase of defense spending created 30,000 jobs.[17] In 1985,

---

[16] Samuel Bowles, "Keynes Is Back, Thanks to Reagan," *New York Times* (July 8, 1984). See also Robert J. Alexander, "A Keynesian Defense of the Reagan Deficit," *American Journal of Economics and Sociology* (January 1989): 47-54; Paul Krugman, "Reagan Was a Keynesian," *New York Times* (June 7, 2012); John Cassidy, "Reagan and Keynes: The Love That Dare Not Speak Its Name," *The New Yorker* (April 30, 2014).
[17] Leonard Silk, "Military Surge As Spur to Jobs," *New York Times* (September 17, 1982).

economic forecaster Nariman Behravesh estimated that 15 percent to 20 percent of the job gains of the previous three years were directly attributable to higher defense spending.[18] These were, of course, simply standard Keynesian multiplier estimates. Any increase in government spending on goods and services paid for with borrowing would have yielded virtually the same results.[19]

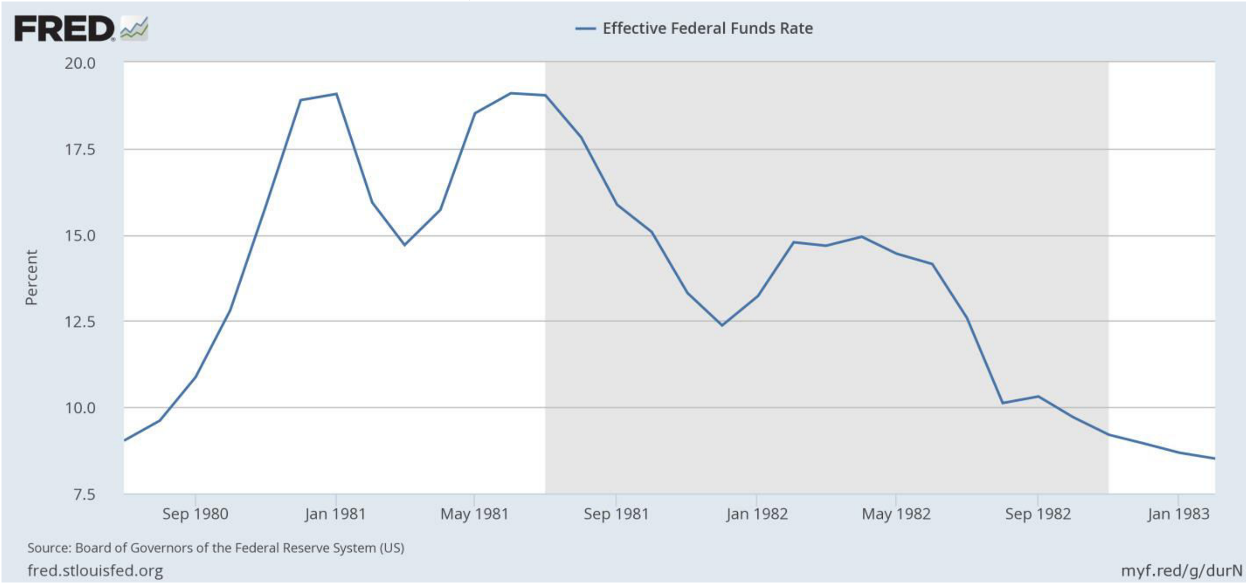
The second factor which added powerfully to economic growth in the 1980s was the sharp cut in interest rates by the Federal Reserve. As Figure 2 shows, the federal funds rate, which is set by the Fed, was close to 20 percent when Reagan took office. Inflation was very high and the Fed believed that higher interest rates would reduce it. But as the economy slipped into recession, the Fed reduced rates by more than 50 percent, from 19 percent in July 1981 to 9 percent in November 1982.[20]

In the end, the Reagan tax cut did not pay for itself. Nor did any administration official or serious Republican economist make such a claim.[21] The proof is that the CBO's revenue estimate in early 1981 was almost identical to that of the Reagan administration.[22] Long after the fact, the Republican economist Lawrence Lindsey estimated that faster economic growth from both the supply side and the demand side may have recouped about a third of the static cost of the 1981 tax cut.[23]

---

[18] "Pentagon Spending Is the Economy's Biggest Gun," *Business Week* (October 21, 1985): 60.
[19] Carolyn Kay Brancato and Linda LeGrande, "The Impact of Defense Spending on Employment," Congressional Research Service Report 82-182E (November 4, 1982).
[20] This was also Keynesian policy. Under the influence of Milton Friedman, Republicans thought interest rates had little independent economic impact; only changes in the money supply mattered.
[21] I document this fact in a paper that was actually published by Arthur Laffer: Bruce Bartlett, *Supply-Side Economics: "Voodoo Economics" or Lasting Contribution* (San Diego: Laffer Associates, 2003).
[22] "Economic Policy and the Outlook for the Economy," Congressional Budget Office (March 1981): 47.
[23] Lawrence B. Lindsey, *The Growth Experiment* (NY: Basic Books, 1990): 76.

Figure 2
Effective Federal Funds Rate, 1980-83



The Failure of George W. Bush's Tax Policy

Some Republicans may believe that the experience of the George W. Bush administration makes a better case for the stimulative effect of a tax cut. But who remembers a booming economy during the Bush years? The economy was dismal, which is why Bush kept proposing one tax cut after another. There was a big one in 2001, followed by another in 2002 and another in 2003, 2004, 2006, and two in 2008.

Again, extravagant claims were made. The conservative Heritage Foundation, where I was a senior fellow in the 1980s, asserted in a 2001 report that by 2011 federal revenues would be higher with the tax cut than they would have been without it, due to higher economic growth, greater investment, and lower unemployment. In fact, real GDP growth was half of what Heritage predicted and the unemployment rate was 50 percent higher. It predicted that federal revenues would equal $3.3 trillion in 2011 including the effect of the tax cut. Revenues were actually $1 trillion less at $2.3 trillion.[24]

Some Republicans have argued that the 2001 tax cut didn't really reflect their economic principles. The 2003 tax cut, which was targeted more at raising investment, is a better test of their ideas, they say. The key element was a reduction in the tax rate on dividends and capital gains to 15 percent. Its purpose was to encourage corporations to pay out more dividends, which would raise individual incomes and growth. As President Bush explained:

---

[24] D. Mark Wilson and William Beach, "The Economic Impact of President Bush's Tax Relief Plan," [Heritage Foundation](#) (April 27, 2001).

> The bill also allows for dividend income to be taxed at a lower rate. This will encourage more companies to pay dividends, which in itself will not only be good for investors but will be a corporate reform measure. It's hard to pay dividends unless you've actually got cashflow. The days when people could say, "Invest with me because the sky's the limit," will be changed by dividend policy. It's hard to promote the sky being the limit and pay dividends unless you're actually profitable and have cashflow. Getting — reducing the tax rate on dividends will also increase the wealth effect around America and will help our markets.[25]

Numerous academic studies have shown that there was no increase in dividend payouts or investment following the 2003 tax cut.

- A survey of financial executives found a modest increase in dividend payments that was mainly driven by improved cash flow, rather than tax effects. There was, in fact, a much larger increase in share repurchases even though their tax treatment was unchanged.[26]
- A 2008 study found no impact of the Bush tax cuts on the aggregate stock market. U.S. stocks didn't outperform foreign stocks or those unaffected by the dividend tax cuts, such as Real Estate Investment Trusts. Stocks paying no dividends enjoyed excess returns during the study period, suggesting that non-tax forces were driving the stock market.[27]
- A 2011 study found that because the dividend tax cut was temporary – all the Bush tax cuts were scheduled to expire at the end of 2010 because of the budget rules necessary to get them enacted – they actually caused aggregate investment to fall.[28] A more recent study found zero change in investment.[29] This result was confirmed in a Federal Reserve staff study.[30]
- A 2013 study found that the payout ratio did not rise after the 2003 tax cut, share repurchases rose more rapidly than dividend payouts, dividend payouts by Real Estate Investment Trusts increased even though they did not qualify for lower taxes, and what

[25] George W. Bush," "Remarks at Signing the Jobs and Growth Tax Relief Reconciliation Act of 2003," The White House (May 28, 2003).
[26] Alon Brav et. al., "Managerial Response to the May 2003 Dividend Tax Cut," *Financial Management* (Winter 2008): 611-24; Alon Brav et al., "The Effect of the May 2003 Dividend Tax Cut on Corporate Dividend Policy: Empirical and Survey Evidence," *National Tax Journal* (September 2008): 381-96.
[27] Gene Amromin, Paul Harrison, and Steven Sharpe, "How Did the 2003 Dividend Tax Cut Affect Stock Prices?" *Financial Management* (Winter 2008): 625-46.
[28] François Gourio and Jianjun Miao, "Transitional Dynamics of Dividend and Capital Gains Tax Cuts," *Review of Economic Dynamics* (April 2011): 368-83.
[29] Danny Yagan, "Capital Tax Reform and the Real Economy: The Effects of the 2003 Dividend Tax Cut," *American Economic Review* (December 2015): 3531-63.
[30] Joseph W. Gruber and Steven B. Kamin, "Corporate Buybacks and Capital Investment: An International Perspective," Federal Reserve Board, International Finance Discussion Paper Note (April 2017).

increase in dividends did take place was consistent with estimates made in 2002, before the tax cut was even contemplated.[31]

In 2010 and 2012, the Congressional Research Service studied the potential effects of allowing all the Bush tax cuts to expire on schedule. (They were extended for two years in late 2010.) It found that there was unlikely to be any major negative impact on the economy because the tax cuts had no detectable positive effect in the first place.[32] In fact, the economy performed more poorly following the Bush tax cuts than it did in the higher-tax era of the 1990s after the 1993 tax increase. The CRS produced Table 2 as evidence.

Table 2
Economic Indicators Before and After the Tax Cuts for Expansion Years (annual averages)

Indicator	1993-2000	2003-2007
GDP Growth	3.9%	2.7%
Median Real Household Income Growth	1.7%	0.6%
Private Employment Growth	2.7%	1.2%
Weekly Hours Worked	34.4	33.8
Employment-Population Ratio	63.4%	62.7%
Unemployment Rate	5.2%	5.2%
Personal Savings as % of Disposable Income	4.6%	2.6%
Business Investment Growth	10.3%	5.6%
Labor Productivity Growth	2.0%	2.2%

Source: Congressional Research Service

A key reason why the Bush tax cuts failed is that they all had expiration dates on them. By using reconciliation to avoid a Senate filibuster, they were required to sunset after 10 years. Back when I was involved in Republican tax policymaking, it was widely understood that temporary tax cuts were essentially worthless because no individual or business is going to change their behavior unless they think a tax change is permanent. We considered temporary tax changes to be the essence of gimmickry.

And the greatest gimmick of all was one that Bush used twice — the tax rebate in 2001 and again in 2008. There is no evidence that they had any stimulative effect whatsoever.[33] By and

[31] Jesse Edgerton, "Four Facts About Dividend Payouts and the 2003 Tax Cut," *International Tax and Public Finance* (October 2013): 769-84.

[32] Marc Labonte, "What Effects Would the Expiration of the 2001 and 2003 Tax Cuts Have on the Economy?" Congressional Research Service Report R41443 (October 5, 2010); Thomas L. Hungerford, "The 2001 and 2003 Bush Tax Cuts and Deficit Reduction," Congressional Research Service Report R42020 (July 18, 2013).

[33] Matthew D. Shapiro and Joel Slemrod, "Consumer Response to Tax Rebates," *American Economic Review* (March 2003): 381-96; Matthew D. Shapiro and Joel Slemrod, "Did the 2001 Tax Rebate Stimulate Spending? Evidence from Taxpayer Surveys," *Tax Policy and the*

large, the windfalls were saved and led to no more than a trivial increase in spending. The increased saving didn't even help because it was offset, dollar-for-dollar, by lower revenues and a higher deficit.[34] Supply-side theory opposed tax rebates as far back as 1974, when the economist Robert Mundell warned President Ford that his proposed rebate was economically worthless.[35] Subsequent analysis showed that the 1975 rebate did nothing to raise growth or reduce unemployment.[36]

Another problem with the Bush tax cuts is that they were phased-in. Supply-side theory always opposed phasing-in tax incentives because it encouraged people to put off economic activity into the future. I clearly remember Art Laffer criticizing the Reagan tax cut in 1981 on exactly these grounds.[37] Subsequent analysis showed that phasing-in the Bush tax cuts robbed them of much of their stimulative potential.[38]

Ironically, whatever stimulative effect that came from Bush's policies owed its impact as well to Keynesian effects.[39] As with Reagan, much came from greatly expanded military spending for wars in Iraq and Afghanistan. According to the Congressional Research Service, war funding added close to $1 trillion to federal spending between fiscal years 2001 and 2009.[40]

By the end of the administration, even Republican economists had little if anything good to say about the Bush tax cuts.[41] In 2010, Alan Greenspan called for them all to be repealed because

---

Economy, v. 17 (2003): 83-109; Claudia R. Sahm, Matthew D. Shapiro, and Joel Slemrod, "Household Response to the 2008 Tax Rebate: Survey Evidence and Aggregate Implications," *Tax Policy and the Economy*, v. 24 (2010): 69-110; "Did the 2008 Tax Rebates Stimulate Short-Term Growth?" Congressional Budget Office (June 10, 2009).

[34] Paying off debt is a form of saving. Deficits are assumed to be negative saving.

[35] James P. Gannon, "Tax Cut To Stimulate Economy Is Urged at White House Meeting of Economists," *Wall Street Journal* (December 20, 1974).

[36] Franco Modigliani and Charles Steindel, "Is a Tax Rebate an Effective Tool for Stabilization Policy?" *Brookings Papers on Economic Activity* (No. 1, 1977): 175-209; Alan S. Blinder, "Temporary Income Taxes and Consumer Spending," *Journal of Political Economy* (February 1981): 26-53.

[37] See for example, Arthur B. Laffer, "Vindication," *Wall Street Journal* (May 25, 1984).

[38] Christopher L. House and Matthew D. Shapiro, "Phased-In Tax Cuts and Economic Activity," *American Economic Review* (December 2006): 1835-49.

[39] David Ignatius, "Bush: Raising Keynes," *Washington Post* (August 26, 2001); Louis Uchitelle, "Sharp Rise in Federal Spending May Have Helped Ease Recession," *New York Times* (March 23, 2002); John Maggs, "George W. Bush, Keynesian," *National Journal* (March 31, 2003): 1692-95.

[40] Amy Belasco, "The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11," Congressional Research Service Report RL33110 (December 8, 2014).

[41] David Leonhardt, "Partisan Economics in Action," *New York Times* (October 6, 2009); Neil Irwin and Dan Eggen, "Bush Lead During Weakest Economy in Decades," *Washington Post* (January 12, 2009).

their contribution to deficits was greater than their stimulus to growth.[42] The economist Alan Viard of the conservative American Enterprise Institute said in 2011, "The effects of the Bush tax cuts on growth were ambiguous at best. They were not much of a poster child for pro-growth tax policy."[43] In 2013, the economist R. Glenn Hubbard, who chaired the Council of Economic Advisers under President Bush, said the Bush tax cuts were no longer relevant to the economy.[44]

Republican politicians, however, routinely dissemble about the fiscal and economic effects of the Bush tax cuts. As Senator Mitch McConnell said in 2010, long after the handwriting was on the wall, "There's no evidence whatsoever that the Bush tax cuts actually diminished revenue. They increased revenue, because of the vibrancy of these tax cuts in the economy."[45] This was not true. In 2012, the Congressional Budget Office did an accounting of fiscal policy during the George W. Bush administration and concluded that the Bush tax cuts reduced revenues by $3.5 trillion.[46]

---

42 Sewell Chan, "Greenspan Calls for Repeal of All the Bush Tax Cuts," *New York Times* (August 7, 2010).

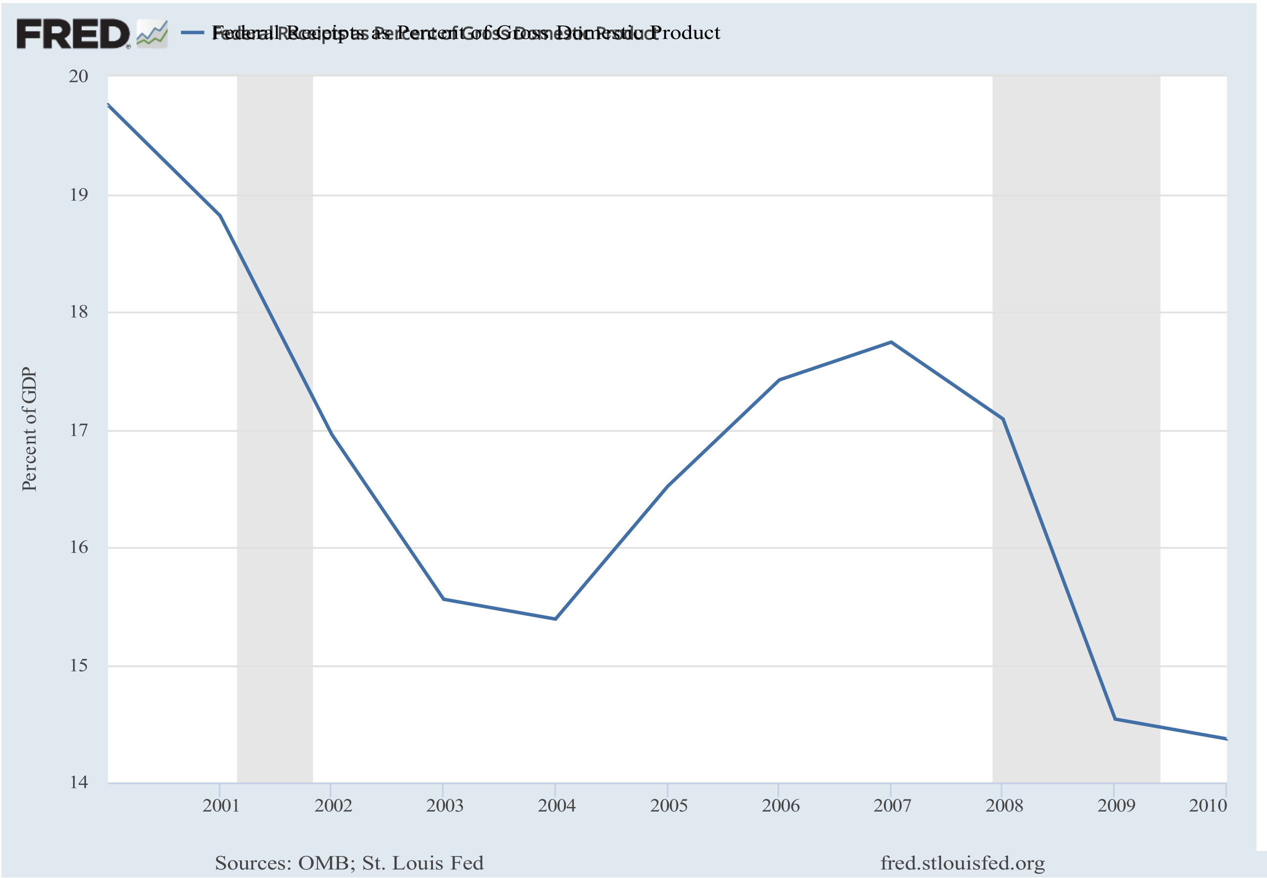
43 David J. Lynch, "Raising Taxes No 'Kiss of Death' for Job Growth, History Shows," Bloomberg (June 2, 2011).

44 Jonathan Weisman, "Lines of Resistance on Fiscal Deal," *New York Times* (January 2, 2013).

45 Brian Beutler, "It's Unanimous! GOP Says No to Unemployment Benefits, Yes to Tax Cuts for the Rich," Talking Points Memo (July 13, 2010).

46 "Changes in CBO's Baseline Projections Since January 2001," Congressional Budget Office (June 7, 2012). See also Marc Labonte and Andrew Hanna, "The Impact of Major Legislation on Budget Deficits: 2001 to 2009," Congressional Research Service Report R41134 (March 23, 2010); Bruce Bartlett, "The Republican Myth on Tax Cuts and the Deficit," *Tax Notes* (May 16, 2011): 757-59.

Figure 3
Federal Receipts as a Share of GDP, 2000-2010



The Failure of Donald Trump's Tax Policy

Once again, fantastic claims were made about the economic and revenue impact of a Republican tax cut in 2017. On numerous occasions, Treasury Secretary Steve Mnuchin stated unambiguously that the tax cut would raise economic growth sufficiently that there would be no increase in the budget deficit.[47] Other Trump administration officials repeated these claims in the national media.[48] The *Washington Post*'s factchecker gave them four Pinocchios for being so disingenuous.[49]

I would note that serious administration analyses of the economic impact of the tax bill were much more circumspect. I include in an appendix a report by the Office of Tax Analysis at the Treasury Department, which got little publicity at the time and now has disappeared from the

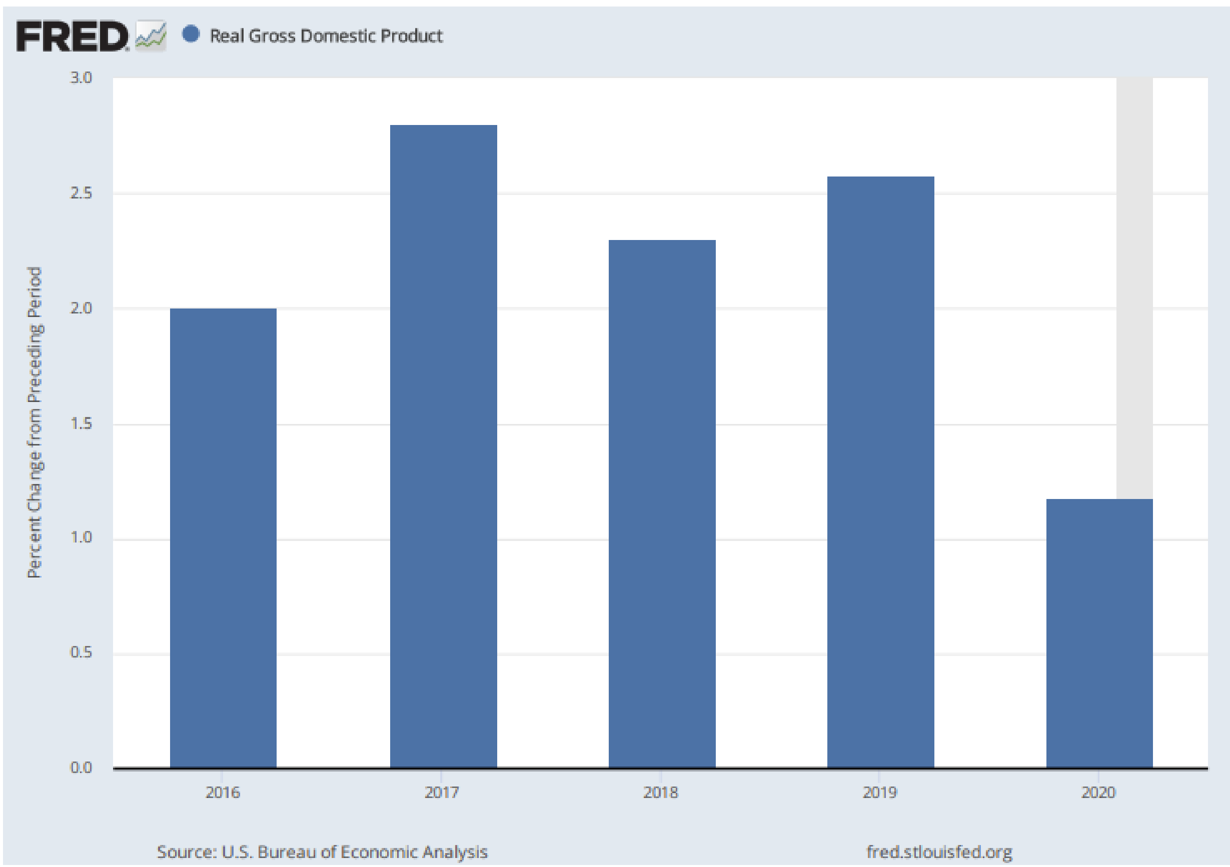
---

[47] Kate Davidson, "Treasury Secretary Steven Mnuchin: GOP Tax Plan Would More Than Offset Its Cost," *Wall Street Journal* (September 28, 2017); "Tax Cut Plan Will Cut Deficit by $1T: Secretary Mnuchin," Fox Business (September 28, 2017).
[48] John Bowden, "Kudlow Insists Tax Bill Will Pay for Itself," *The Hill* (December 24, 2017).
[49] Glenn Kessler, "Trump Aides Sell Tax Plan With Pinocchio-Laden Claims," *Washington Post* (September 29, 2017).

Treasury Department's website.[50] Alan Greenspan, chairman of both the Council of Economic Advisers under Gerald Ford and the Federal Reserve under Ronald Reagan, predicted that the tax cut would have "very little" impact on growth precisely because it would *not* pay for itself and would therefore greatly increase the deficit.[51] Goldman Sachs thought the tax cut would add, at most, three basis points to the growth rate — that's 3 tenths of one percent, a trivial effect.[52]

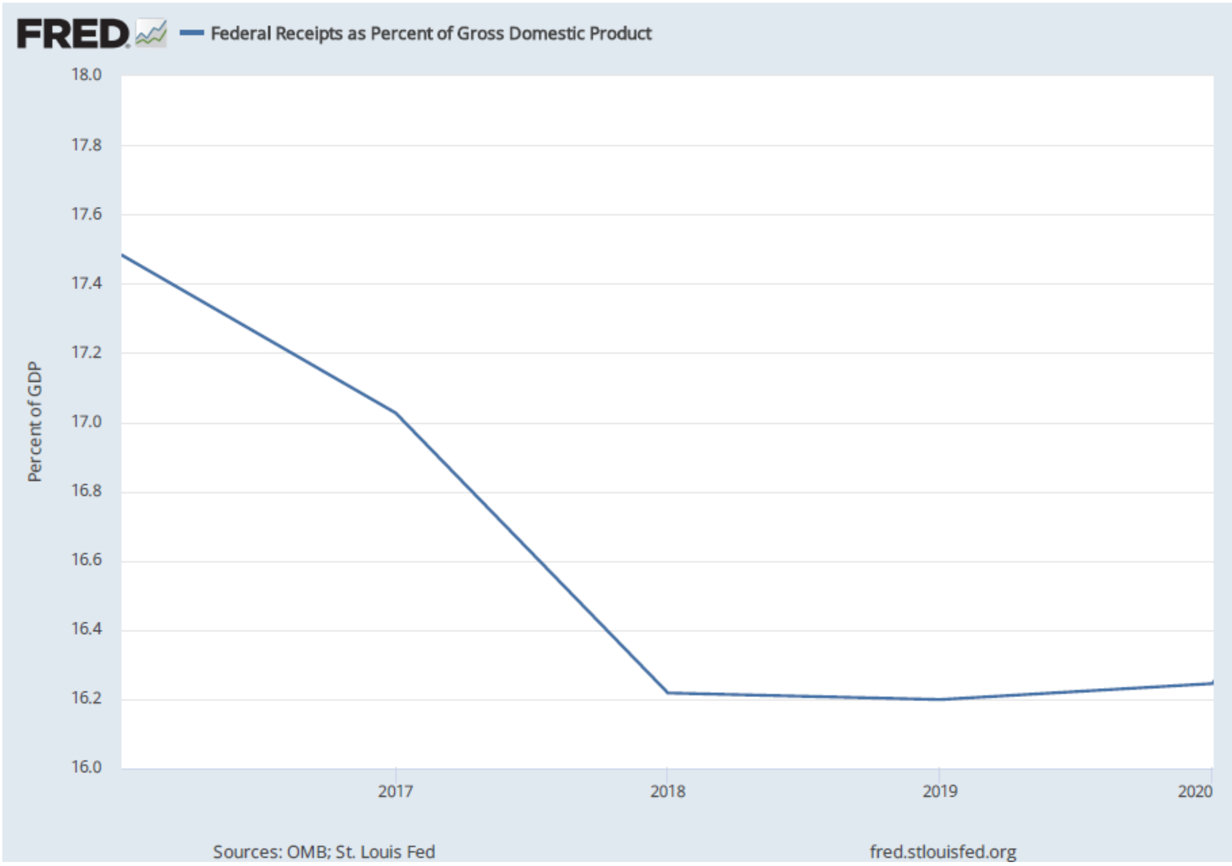
A naive analysis of real GDP growth before and after the tax cut shows no effect whatsoever. Moreover, federal receipts as a share of GDP fell in line with objective analyses of the tax cut's revenue effect. According to the Penn Wharton budget model, extension of the 2017 tax cut past 2025, when it is due to expire, will add $2.8 trillion to the deficit through 2032.[53]

Figure 4
Percent Change in Real GDP, 2016-2020



[50] The press release is available, but the document can only be found on the Wayback Machine.
[51] Jeff Cox, "Greenspan: Tax Reform Will Do 'Very Little' for Growth; Inflation Is Biggest Danger," CNBC (December 6, 2017).
[52] Jan Hatzius and Alec Phillips, "Tax Reform: The Home Stretch," Goldman Sachs Economic Research (December 3, 2017).
[53] "The Long-Term Budget Effects of Permanently Extending the 2017 Tax Cuts and Jobs Act's Expiring Provisions," Penn Wharton (April 11, 2023).

Figure 5
Federal Receipts as a Share of GDP, 2016-2020



I have reviewed the academic literature for research on the impact of the Trump tax cut six years after enactment. Obviously, recent economic data is affected by extraneous factors such as covid and monetary tightening by the Federal Reserve. Nevertheless, it is possible to disentangle these effects. A September 2021 analysis found no impact of the tax cut relative to a no-tax-cut baseline.[54] A December 2021 paper looked for "supply-side" effects and could find none. The leading effects on growth through 2019 were on the demand side of the economy, lower oil prices, and trends in technology that predated the tax cut. Growth in business formations, employment, and median wages actually slowed after the tax cut.[55]

Perhaps the most fantastic claim made for the Trump tax cut, which was made by Kevin Hassett of the Council of Economic Advisers, is that it would cause so much additional corporate

[54] Benjamin Born et al., "The Macroeconomic Impact of Trump," *Policy Studies* (September 2021): 580-91.
[55] William G. Gale and Claire Haldeman, "The Tax Cuts and Jobs Act: Searching for Supply-Side Effects," *National Tax Journal* (December 2021): 895-914.

investment that workers would see a rise in their real wages of between $3,000 and $7,000.[56] The Harvard economist Larry Summers was brutal in his criticism of this projection:

> The claim is absurd on its face. The cut in corporate tax rates from 35 to 20 percent will cost slightly less than $200 billion a year. There is a legitimate debate among economists about how much the cut will benefit capital and how much it will benefit labor. Kevin's "conservative" claim that the cut will raise wages by $4000 in an economy with 150 million workers is a claim that workers will benefit by $600 billion or 300 percent of the tax cut! To my knowledge, such a claim is unprecedented in analyses of tax incidence. Kevin though doubles down by holding out the further possibility that wages might rise by $9000.[57]

While wages have risen lately due to covid-related depression of the labor force, there was no evidence before covid that the tax cut was raising wages.[58] The economist William R. Cline noted that failure of the tax cuts of the 1980s to raise wages was a good reason to believe that the Trump tax cut would have no such effect.[59] I would further note that similar corporate tax cuts in Germany, Japan, Italy, and the United Kingdom also showed no meaningful effect on wages.[60] I have not heard Hassett or any other economist defend the idea that the tax cut would lead to higher wages since 2017. It was, as so many Washington-based studies are, more of a public relations document than a serious analysis; once its purpose was served and the legislation enacted, it was forgotten.

The Unknown History of Tax Increases

Many years ago, I was talking to Jack Kemp. He told me that just before George H.W. Bush signed into law the 1990 tax increase, which Kemp strenuously opposed, he made an appointment to see Bush and made a last-ditch effort to get him to reject the legislation. Kemp was then serving as secretary of Housing and Urban Development.

---

56 Council of Economic Advisers, "Corporate Tax Reform and Wages: Theory and Evidence," The White House (October 2017).

57 Larry Summers, "Hassett's Flawed Analysis of the Trump Tax Plan" larrysummers.com (October 17, 2017). See also, Larry Summers, "One Last Time on Who Benefits from Corporate Tax Cuts," larrysummers.com (October 22, 2017); Jason Furman, "No, the GOP Tax Plan Won't Give You a $9,000 Raise," *Wall Street Journal* (October 22, 2017); Martin Sullivan, "Latest White House Tax Study Illustrates Familiar Pattern of Deceptive Economics," *Forbes* (October 19, 2017).

58 Kathryn Kranhold, "Big Businesses Promised Wage Hikes from Trump's Tax Cuts. What Actually Happened?" Center for Public Integrity (February 12, 2019).

59 William R. Cline, "Will Corporate Tax Cuts Cause a Large Increase in Wages?" Peterson Institute for International Economics (November 2017).

60 Kimberly A. Clausing, "Fixing Five Flaws in the Tax Cuts and Jobs Act," *Columbia Journal of Tax Law* (July 2020): 43-46.

Kemp told me that Bush told him the legislation would stimulate the economy, which was then suffering from a recession that began in July 1990. The expansion of the 1980s, Bush said, didn't begin until Ronald Reagan signed the Tax Equity and Fiscal Responsibility Act of 1982. Kemp was incredulous.

TEFRA, as the Reagan tax increase was called, remains the largest peacetime tax increase in American history. Kemp, despite his love for Reagan, opposed it in Congress, asserting that it would tank the economy, which was still in recession.

I laughed when Kemp told me his Bush story, because that was what he expected me to do. But in the back of my mind, I thought Bush was right. The economic recovery did begin almost exactly when TEFRA took effect.

I recalled this incident in January 2013, when the stock market rose sharply after the passage of the tax deal, which raised the top income tax rate and the rate on capital gains and dividends. This is the opposite of what should have happened according to Republican dogma, which holds that the tiniest increase in tax rates, especially on the rich, is economically devastating.

That got me thinking about the impact of other tax increases in history. A little research showed that sharp increases in the stock market have often followed big tax increases.

For example, in 1932 Herbert Hoover enacted a large tax increase to stabilize federal finances devastated by the Great Depression, which began in 1929. Among other things, the 1932 tax increase raised the top federal income tax rate to 63 percent from 25 percent. But the Dow Jones industrial average increased sharply in 1933, rising 69 percent.[61]

The Dow remained flat for the next several years and then took a sharp jump beginning in 1935. Intriguingly, 1935 just happens to be the year Franklin D. Roosevelt rammed a big tax increase on the rich through Congress.[62] In his message to Congress on June 19, 1935, he emphasized that no wealthy person became wealthy alone, but only in cooperation with many others:

> Wealth in the modern world does not come merely from individual effort; it results from a combination of individual effort and of the manifold uses to which the community puts that effort.[63]

[61] For a positive view of this legislation, see George H. Nash, "Herbert Hoover's Balanced Budget," *Wall Street Journal* (June 12, 1980); David A. Zalewski, "A Reconsideration of the Revenue Act of 1932," *Essays in Economic and Business History*, v. 24 (2006): 56-68.
[62] Roy G. Blakey and Gladys C. Blakey, "The Revenue Act of 1935," *American Economic Review* (December 1935): 673-90.
[63] Franklin D. Roosevelt, "Message to Congress on Tax Revision," The White House (June 19, 1935).

The top federal income tax rate rose to 79 percent beginning in 1936, from 63 percent. Yet the Dow was up 48 percent in 1935 and another 25 percent in 1936.

Anyone following standard supply-side advice would have sold everything the day Roosevelt sent his message to Congress. But anyone buying that day would have made 50 percent on their money by the end of 1936 if they did as well as the Dow.

Figure 6

Dow Jones Industrial Average

World War II led to further tax increases. The really big one came in 1942 and raised revenues by 70 percent, 5 percent of the gross domestic product. The Revenue Act of 1942 was the largest tax increase in American history.

Someone following supply-side theory would undoubtedly have anticipated a stock market crash from such a large tax increase. In fact, an enormous boom followed, despite further large tax increases in 1943, including the institution of tax withholding. From early 1942 through the end of 1945, the Dow doubled, and a supply-sider would have lost out on one of the great bull markets in history.

Fast forward to 1982. TEFRA passed the House and Senate on Aug. 19; the Dow closed at 838.57. By the end of the year, it was up to 1,075.70, an increase of 28 percent. The market continued to rise through 1983, closing at 1,258.64.

Bush signed the 1990 budget deal on Nov. 5 of that year, and the Dow closed at 2,502.23. By the end of 1992, the Dow was up 32 percent. Anyone following supply-side theory would have missed yet another bull market.

The 1993 tax increase, which was opposed by every Republican in Congress on the grounds that it would devastate the economy, initiated one of the greatest bull markets in history. It raised the top federal income tax rate to 39.6 percent from 31 percent – a huge destruction of incentives for the wealthy, according to Republican doctrine. It was signed into law on Aug. 10 of that year and the Dow closed at 3,572.73. But by the end of 1993, it was up to 3,754.09, and by the end of 1996 had risen to 6,448.26, a three-year increase of 72 percent.

According to Republican legend, the market didn't take off until Republicans in Congress cut the capital gains tax in 1997. While much of the bull market did come after 1997, there is no denying that Republican predictions about the effect of the 1993 tax increase were dead wrong. On balance, the Clinton tax increase was positive for the economy.[64]

I'm not going to pretend that tax increases always lead to bull markets or that tax cuts have no effect. I'm saying that the relationship between taxes, on the one hand, and the economy and the stock market, on the other, is vastly more complex than simplistic Republican dogma would have us believe.

Clearly, there are times when a tax increase sets in motion positive economic forces, like deficit reduction or a more expansionary monetary policy by the Federal Reserve, which overwhelm whatever negative effects may result from higher taxes. The precise impact can only be determined by careful analysis unencumbered by dogmatic beliefs not anchored in empirical evidence.

Insofar as taxes affect the market, I have long suspected that when tax rates are low they make it too easy for investors to get an adequate after-tax return. When rates rise, they must work harder for a higher before-tax return to compensate for the higher taxes. This pushes money into growth sectors.

The Myth of Tax Reform

It is clear is that there is little appetite for genuine tax reform within the Republican Party today. "Tax reform" implies revenue-neutral legislation that cuts statutory rates but pays for it by eliminating tax deductions, exclusions, and credits. In other words, taxes will be simultaneously raised and cut. But since 1986, there has been little appetite for the "reform" part of tax reform among Republicans because they are loath to raise taxes for any reason — even the achievement of lower statutory rates. All they really want to do is cut taxes, especially for the wealthy and businesses.

I would point out that the revenue-raising parts of tax reform are more than just pay-fors. The idea of tax reform that led to enactment of the Tax Reform Act of 1986 was that it was

[64] Alan S. Blinder and Janet L. Yellen, *The Fabulous Decade* (NY: The Century Foundation, 2001); Joseph E. Stiglitz, *The Roaring Nineties* (NY: W.W. Norton, 2003).

inefficient and deleterious to long-term growth for investment to be guided by the tax code, away from what it would be in the absence of tax subsidies. That is why, for example, elimination of the Investment Tax Credit was a critical element of the Tax Reform Act of 1986.[65] Not only did it bias corporate investment in favor of machinery and equipment — the only type of investment applicable — but it didn't even raise aggregate investment very much because it led to higher prices for machinery and equipment that offset much of the tax credit's impact.[66]

In principle, a change that holds revenues constant while lowering marginal tax rates – the rate on the last dollar earned – should increase growth. That is because, in economist-speak, both the income and the substitution effects are pushing in the same direction.

The income effect results when taxes rise. People have to work and produce more to pay the additional tax in order to have the same amount of disposable income they had previously. Conversely, if taxes fall, the opposite effect occurs – people can work and produce less and still have the same disposable income.

The substitution effect arises when marginal tax rates alter the trade-offs between work and leisure, saving and consumption, taxable investments and tax-sheltered investments such as municipal bonds, taxable wages and nontaxable fringe benefits such as health insurance, renting and owning a home and so on.

What Reagan did in 1986 was to keep taxes constant but reduce marginal tax rates. By "taxes" I mean aggregate tax revenues; there was no overall tax cut in 1986. As noted earlier, economic theory is unambiguous that holding taxes constant and reducing marginal rates will increase growth. But it is important to understand that this effect is neither large nor instantaneous. At best, it will raise the level of GDP some years in the future, raising the rate of growth by perhaps tenths of a percent until the new level of GDP is reached.

The idea that tax reform will jump-start an economy suffering from the after-effects of a cyclical downturn is nonsense. This can be illustrated by looking at the impact of the 1986 tax reform.

[65] My old boss Jack Kemp was actually in favor of abolishing the ITC as a stand-alone measure even thought it was a tax increase. See his statement in the *Congressional Record* on April 29, 1977. More recently, House Republicans have supported the repeal of "green" energy tax credits even though it's a tax increase. Grover Norquist has said this is a permissible form of tax increase. Paul M. Krawzak, "Tax Pledge's Father Bestows Blessing on GOP Debt Limit Package," *Roll Call* (May 3, 2023).

[66] Austan Goolsbee, "Investment Tax Incentives, Prices, and the Supply of Capital Goods," *Quarterly Journal of Economics* (February 1998): 121-48.

Table 3
Economic Indicators, 1983-1992
(percent)

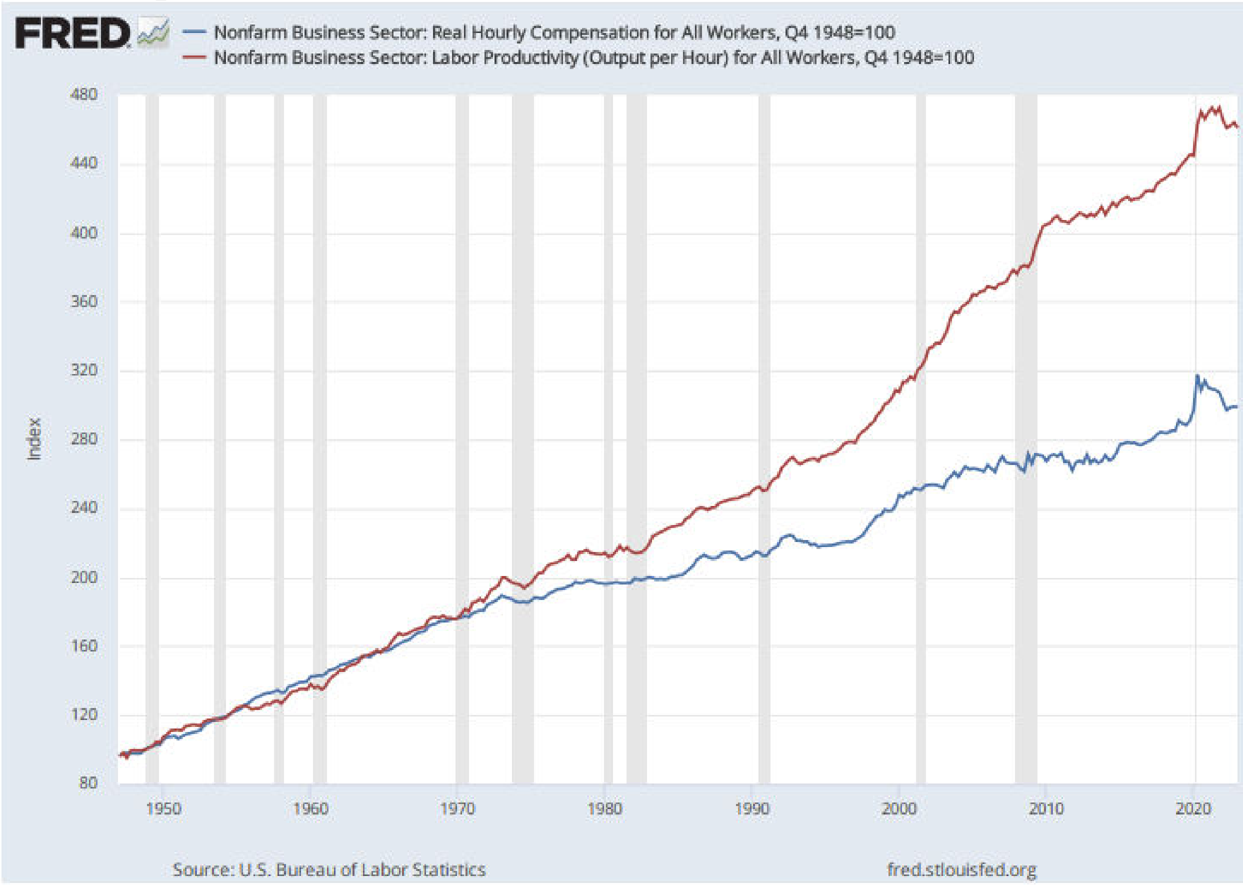
Year	Real Gross Domestic Product Growth	Unemployment Rate
1983	4.5	9.6
1984	7.2	7.5
1985	4.1	7.2
1986	3.5	7.0
1987	3.2	6.2
1988	4.1	5.5
1989	3.6	5.3
1990	1.9	5.6
1991	-0.2	6.8
1992	3.4	7.5

Real GDP growth was about the same after the 1986 act took effect in 1987 as it was before, and tax reform obviously did nothing to forestall the 1990-91 recession. Unemployment fell, but it had been trending downward before tax reform, and the 1986 act probably had nothing to do with it. Within a couple of years it was trending upward again.

In 2017, Republicans tried desperately to show that cutting the corporate tax rate would mainly help workers.[67] As President Trump put it, "Lower taxes on American business means higher wages for American workers."[68] There is a theoretical case showing that higher corporate investment will raise productivity, which will raise wages. But it's important to note that the relationship between higher productivity and higher wages has been broken since the early 1970s. Even if there is higher domestic investment (dubious assumption) and it raises productivity (also dubious), there is no reason to think workers will necessarily benefit.

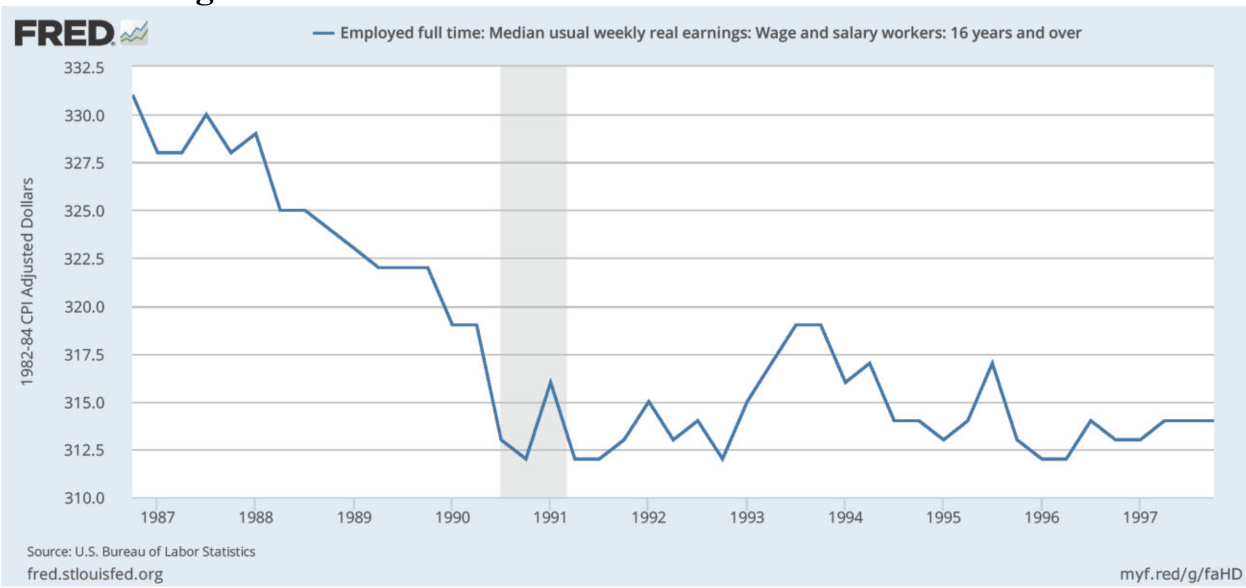
[67] Adam Michel, "Government Scorekeepers Are Wrong. Corporate Tax Reform Would Mostly Help Workers, Not the Rich," Heritage Foundation (September 22, 2017).
[68] Donald Trump, "Remarks at Loren Cook Company in Springfield, Missouri," The White House (August 30, 2017).

Figure 7
Output Per Hour (Top Line) Rises,
Real Compensation (Lower Line) Does Not



Real earnings for workers fell after the Tax Reform Act of 1986 and stagnated for 10 years following its enactment.

Figure 8
Real Earnings 10 Years After the Tax Reform Act of 1986



By the mid-1990s, it was the consensus view of economists that the Tax Reform Act of 1986 had little, if any, impact on growth. In an article in the May 1995 issue of the *American Economic Review*, the Harvard economist Martin Feldstein, a strong supporter of tax reform who had served as chairman of Reagan's Council of Economic Advisers, found large changes in the composition of income, but the only growth effect was a small increase in the labor supply of married women.[69]

In a comprehensive review of the economic effects of the 1986 tax reform act, in the June 1997 issue of the *Journal of Economic Literature*, Alan Auerbach of the University of California, Berkeley, and Joel Slemrod, the University of Michigan economist, also found that the primary impact was on the shifting composition of income. They could find no significant growth effects. They concluded, "The aggregate values of labor supply and saving apparently responded very little."[70]

Compositional changes in income are not unimportant and may be worth the effort of doing tax reform, even if there is no growth effect whatsoever. For example, it may improve fairness,

[69] Martin Feldstein, "Behavioral Responses to Tax Rates: Evidence from the Tax Reform Act of 1986," *American Economic Review* (May 1995): 170-74.
[70] Alan J. Auerbach and Joel Slemrod, "The Economic Effects of the Tax Reform Act of 1986," *Journal of Economic Literature* (June 1997): 589-632.

simplicity, and tax administration.[71] But it appears that even in a best-case scenario in which the top rate comes down a lot – the 1986 act lowered the top personal income tax rate 22 percentage points to 28 percent from 50 percent and the corporate rate fell 12 points to 34 percent from 46 percent – the real economic effects are at best very modest.

A Responsible GOP Tax Policy

It's too soon to say for sure, of course, but I do detect a glimmer of sanity in my former party – I have considered myself an independent for more than a decade – on the issue of taxation. Not long ago, Kevin Williamson, an editor of *National Review*, the principal journal of traditional conservatism, penned a powerful essay on the how Republicans attribute magical qualities to tax cuts that are not borne out by the evidence. Said Williamson:

> Tax cuts can have anti-growth effects as well as pro-growth effects. Deficits and public debt are a drag on the economy, hoovering up investable capital and putting upward pressure on interest rates. If you want to eventually eliminate those deficits and pay down that debt, then you either have to raise taxes in the future, cut spending, or do both, i.e., you have to invert today's stimulus measures at some point in the future. ("At some point in the future" is every politician's favorite timeframe, of course — they all assume they'll be dead or retired by the time the music stops.)
>
> Republicans are right about the existence of growth effects, but they are fooling themselves about the scale of those effects. There is nothing wrong in principle with "dynamic scoring," the Republican-favored policy of incorporating growth effects into the Congressional Budget Office's evaluation of the fiscal effects of legislation. But that should be done responsibly. The current pie-in-the-sky Republican attitude toward taxes is something else entirely.[72]

The Republicans' view of tax cuts long ago passed into the realm of fanaticism, in my opinion. When I hear one make fantastic claims for tax cuts yet again I am always reminded of the philosopher George Santayana's quip, "Fanaticism consists of redoubling your efforts when you have forgotten your aim."

As I have noted above, tax increases were not always anathema to Republicans. Every Republicans president from Herbert Hoover to George H.W. Bush supported them when

---

[71] The Tax Reform Act of 1986 led to increased reporting of taxable income. See James Alm and Sally Wallace, "Taxpayer Reporting Responses and the Tax Reform Act of 1986," *Public Budgeting and Finance* (Fall 2010): 1-26.
[72] Kevin Williamson, "An Anti-Growth Tax Cut: Republicans Regress Into Irresponsibility," *National Review* (September 21, 2017).

necessary to reduce the deficit. And, contrary to Republican dogma, tax increases were successful in achieving a significant reduction in the deficit, particularly under Bill Clinton.

I am not by any means a deficit hawk, but those who believe the budget should be balanced have to believe there is some major economic benefit from doing so. If those benefits are as large as Republicans imply, then it stands to reason that there are times when they exceed the economic cost of tax increases. This is simple logic.

The Republican policy of reducing deficits only on the spending side means that the cost is borne solely by those who benefit from spending programs. These are often the poor and politically powerless. But if the benefits of deficit reduction are large, then the cost should be shared by all Americans to the greatest extent possible. The only way to reach many well-to-do Americans is on the tax side of the budget. Thus tax increases are essential to fairness.

In closing, I would like to note that my estrangement from the Republican Party began in 2003, when it enacted a vast, unfunded entitlement program called Medicare Part D. Until that time, I thought the Republican Party was sincere about controlling spending, especially entitlements. I was therefore shocked to discover that this was all talk with not a lick of sincerity. It is also when I realized that a significant tax increase would be needed to fund all the benefits promised to the aging baby boom generation.

Since that time, I have written many articles and testified before various congressional committees on the need to raise taxes and to do so in the least economically damaging way possible. I looked carefully at the history and experience of welfare states and concluded that we need a value-added tax. I also concluded that only a Republican president could implement such a tax, perhaps in return for lower rates.[73] VATs were implemented by conservative governments in almost every country that has one.[74]

[73] I would note that there is much interest among Republicans for the so-called FairTax, which is simply a VAT that cannot be administered the way it is designed. A VAT will work, the FairTax won't. See William G. Gale and Kyle Pomerleau, "Deconstructing the Fair Tax," *Tax Notes Federal* (March 27, 2023): 2169-94.

[74] See Junko Kato, *Regressive Taxation and the Welfare State* (NY: Cambridge University Press, 2003). See also Bruce Bartlett, "A Conservative Case for a VAT," *The VAT Reader* (Arlington, VA: Tax Analysts, 2011): 83-95.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

Analysis of Growth and Revenue Estimates Based on the U.S. Senate Committee on Finance Tax Reform Plan
December 11, 2017

Treasury's Office of Tax Policy (OTP) has modeled the Senate Finance tax reform plan and overall has similar analysis to the Joint Committee on Taxation (JCT) on a static basis, with a score of approximately -$1.5 trillion on a current law basis and approximately -$1 trillion on a current policy basis.[1] The difference between current law and current policy is that current law assumes existing provisions that are set to expire, such as bonus depreciation, do expire; while current policy assumes these are renewed, as has often been the case historically.

In addition to a static score, JCT calculated the increase in government tax receipts in the Senate Finance tax plan due to growth. They estimated $408 billion of additional tax revenue. Adding this $408 billion to the static score leads to a change in total projected receipts under JCT's assumptions of approximately -$1 trillion on a current law basis.

OTP has modeled the revenue impact of higher growth effects, using the Administration projections of approximately a 2.9% real GDP growth rate over 10 years contained in the Administration's Fiscal Year 2018 budget.[2]

OTP compared this 2.9% GDP growth scenario to a baseline of previous projections of 2.2% GDP growth. Treasury expects approximately half of this 0.7% increase in growth to come from changes to corporate taxation. We expect the other half to come from changes to pass-through taxation[3] and individual tax reform, as well as from a combination of regulatory reform, infrastructure development, and welfare reform as proposed in the Administration's Fiscal Year 2018 budget.

This 0.7% increase in the annual real growth rate results in an increase in tax revenues during the 10-year period of approximately $1.8 trillion. Adding this $1.8 trillion of incremental revenue to the static current law score of -$1.5 trillion results in total receipts over the 10-year window increasing by $300 billion. These increased receipts are primarily collected in the last five years, as full expensing creates growth in early years but results in a deferral of collection of taxes.

We acknowledge that some economists predict different growth rates. OTP projects that at approximately 0.35% of incremental annual GDP growth, Treasury tax receipts would generate approximately $1 trillion of incremental revenue.

Neither JCT nor Treasury has released a score showing increased tax receipts from the House plan, though we would not expect the results to be materially different.

---

[1] OTP assumed similar levels of savings from the repeal of Obamacare's individual mandate as JCT. All scores are on a 10-year time period.
[2] More specifically, growth is 2.5% in 2018, 2.8% in 2019, and 3.0% thereafter, as developed by Treasury, OMB, and CEA for the President's budget (FY2018).
[3] Business tax receipts are estimated to be approximately half from corporations and half from pass-through businesses, although this has varied over time.

Don't Use My Tax Plan

By Bruce Bartlett

IN a speech in Detroit on Monday, Donald J. Trump put forward a huge tax cut as the centerpiece of his economic program. He compared his plan to Ronald Reagan's 1981 tax cut, saying his proposal would be "the biggest tax revolution since the Reagan tax reform, which unleashed years of continued economic growth and job creation."

I know something about the Reagan tax cut. In 1977, while working for Representative Jack Kemp, Republican of New York, I drafted the Kemp-Roth tax bill, which Reagan sent to Congress in early 1981. The law cut statutory tax rates by about 25 percent across the board.

It is G.O.P. dogma that the Reagan tax cut set off an economic boom. Every Republican presidential nominee since the 1980s has promised big tax cuts and another economic surge. Tax increases, Republicans believe, are the kiss of death for the economy.

While Mr. Trump has been unafraid to differ with Republican doctrine on many issues, such as Iraq and trade, he is embracing party orthodoxy on taxes. But the Reagan tax cut is not the medicine the economy needs.

Tax rates were very high when Reagan proposed cutting them — much higher than today. The high tax rates from the World War II era had been only partly cut by John F. Kennedy, and the top income-tax rate was 70 percent. Inflation was pushing workers into higher tax brackets when they received cost-of-living pay raises.

According to the Tax Policy Center, the average federal income-tax rate on a family of four with the median income rose from 9.1 percent in 1972 to 11.8 percent in 1981. The marginal tax rate — the tax on the last dollar earned — rose from 19 percent to 24 percent in the same period.

By contrast, the average tax rate on the median family in 2014 was just 5.3 percent, and the marginal rate was 15 percent. Inflation is nonexistent, and no one is being pushed into higher tax brackets by it.

In short, taxes were too high in 1981 and needed to be cut — including for the rich. The tax rates above 50 percent were not bringing in much revenue because wealthy people were likely to invest in tax shelters.

But the Reagan tax cut played only a secondary role in the 1980s boom, which wasn't really much of a boom. Real G.D.P. grew 37.9 percent in the 1970s, compared with 36.1 percent in the 1980s. The economy felt better because inflation came down extraordinarily quickly, far more quickly than economists in 1980 thought was possible. But this was primarily a result of the Federal Reserve's tight money policy, not taxes.

What was right for Reagan's era is wrong for Trump's.

The tax cut deserves credit for softening the blow from the reduction in inflation, which brought on a sharp recession in 1981-82. But what we think of as the Reagan boom was the typical rebound from a sharp recession, just as we had seen after all previous postwar recessions. Much credit for growth in the Reagan years must go to the sharp increase in government purchases for his defense buildup.

What many Republicans also forget is that Reagan cared about deficits and supported 11 different tax increases from 1982 to 1988 that collectively took back half of the 1981 tax cut. Although many conservative economists predicted doom from the 1982 tax increase, which equaled 1 percent of G.D.P., the beginning of the boom coincided with its enactment.

These economists also predicted catastrophe from the 1993 tax increase enacted under President Bill Clinton and from the expiration of many of President George W. Bush's tax cuts in 2013. But in each case financial markets and the economy grew sharply afterward. By contrast, the economy tanked during the Bush years despite numerous large tax cuts.

The final proof that tax cuts are not the be-all and end-all of growth policy is the Tax Reform Act of 1986, which dropped the top income-tax rate to 28 percent. Conservative doctrine predicted an economic boom, but I don't remember one, nor can I find one in the data.

Those economists who claim to be following Reagan's policies by supporting Mr. Trump's large tax-cut proposal are guilty of one-size-fits-all economics. There is far more evidence from the last 35 years showing that tax increases do more to stimulate growth than tax cuts.

I wouldn't suggest that tax increases are always the answer. Whether taxes should be raised or cut can be determined only by analysis, not by dogma.□

Bruce Bartlett held senior policy roles in the Ronald Reagan and George H.W. Bush administrations. He is the author of "Reaganomics: Supply-Side Economics in Action."